GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	SB0099	**Title:**	Five year statute of limitations for corporation license tax
Primary Sponsor:	Harrington, Dan	**Status:**	As Amended in Senate Committee

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Revenue:				
General Fund	$964,850	$1,929,700	$1,929,700	$1,929,700
Net Impact-General Fund Balance	$964,850	$1,929,700	$1,929,700	$1,929,700

Description of Fiscal impact:

This bill increases the statute of limitations for corporation license tax from three years to five years. When the Department of Revenue audits a corporation, it will be able to examine more years' returns in each audit, resulting in an increase in revenue per audit.

FISCAL ANALYSIS

Assumptions:

1. The statute of limitations determines the period that the Department of Revenue may go back in auditing a taxpayer. Under current law, the statute of limitations is five years for the individual income tax and three years for the corporation license tax. This bill would make the statute of limitations five years for the corporation license tax.
2. Under current law, when the Department of Revenue audits a corporate taxpayer, it can audit the last three years' returns and any other years' returns that are being audited by the IRS. With this bill, the department would be able to audit five years' returns plus any other years' returns that are being audited by the IRS.
3. In FY 2002 through FY 2006, on average, the department collected additional revenue or reduced refunds from 23 field audits per year. On average, these audits covered returns from 3.6 years, and audit revenue averaged $83,900 for each year's return being audited.

4. Adding an additional two years of returns to 23 field audits per year would, on average, result in $3,859,400 in additional revenue (23 audits x 2 years x $83,900). With more years being open for audit, the department's audit selection tests are more likely to identify returns that should be audited in detail before those returns are past the statute of limitations. This would increase the average revenue per return. However, there would be less or no additional revenue from audits where more than three years of returns are being audited by the IRS. Also, with individual audits covering more years and no increase in audit staff, the department might average fewer field audits each year, and corporations would have an additional two years to file amended returns and ask for a refund. Thus, the additional revenue is estimated to be half this amount, or $1,929,700.
5. This bill would be effective on passage and approval, affecting audits being conducted from the spring of 2007 forward. Because of the time between the beginning of an audit and when a taxpayer pays any resulting assessment, revenue in FY 2008 is estimated to be half the projected annual amount, or $964,850.
6. The Department of Revenue would not incur any significant additional costs because of this bill.

	FY 2008 Difference	**FY 2009 Difference**	**FY 2010 Difference**	**FY 2011 Difference**
Fiscal Impact:				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
TOTAL Expenditures	$0	$0	$0	$0
Revenues:				
General Fund (01)	$964,850	$1,929,700	$1,929,700	$1,929,700
TOTAL Revenues	$964,850	$1,929,700	$1,929,700	$1,929,700
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$964,850	$1,929,700	$1,929,700	$1,929,700

Effect on County or Other Local Revenues or Expenditures:

1. None.

Long-Range Impacts:

1. The revenue increase from this bill would continue after FY 2011.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*